



APPROVED MINUTES
APPROVED 09-19-11

CITY OF SCOTTSDALE
AUDIT COMMITTEE

MONDAY, AUGUST 22, 2011

CITY HALL
KIVA CONFERENCE ROOM
3939 NORTH DRINKWATER BOULEVARD
SCOTTSDALE, AZ 85251

REGULAR MEETING

PRESENT: Chair Suzanne Klapp
Councilwoman Linda Milhaven
Vice Mayor Robert Littlefield

STAFF: Phil Montalvo, Administrative Services
Steve Bennett, City Attorney's Office
Jennifer Pollock, City Attorney's Office
David N. Smith, City Treasurer
Dennis Enriquez, Finance & Accounting
David Heyman, Finance & Accounting
Jacob Beard, Information Technology
Brent Stockwell, Strategic Resources Group
Dave Petty, Water Resources
Lisa Gurtler, City Auditor's Office
Joanna Munar, City Auditor's Office
Sharron Walker, City Auditor's Office

CALL TO ORDER

Chair Klapp called the meeting to order at 4:03 p.m.

1. Approval of Minutes, Regular Meeting, June 20, 2011

VICE MAYOR LITTLEFIELD MOVED TO APPROVE THE MINUTES OF THE JUNE 20, 2011 REGULAR MEETING. COUNCILWOMAN MILHAVEN SECONDED THE MOTION, WHICH CARRIED BY A VOTE OF THREE (3) TO ZERO (0).

2. Discussion with and possible direction to staff regarding Audit Report No. 1111, Meter Reading Program

Ms. Lisa Gurtler described this audit. The auditors determined that generally there are sufficient controls to ensure timely and accurate meter reading. However, they identified some opportunities for improvement. Inventory control needs improvement, more than 17,000 meters are past due for replacement and more than 265 years of warranty coverage has been lost on equipment not yet placed in service. Additionally, they found that available management reports are not consistently used to evaluate potential water leaks and defective meters. Their testing suggested that over \$20,000 of revenue was lost due to defective meters. There appears to be limited customer awareness of the City's Base Fee Billing Suspension Program, which allows a customer with zero usage for more than six consecutive months to suspend their monthly base fee. They found that as of April 2011, 328 meters met the criteria, yet only one customer was using the program. The auditors found that efficiencies may be gained through reconfiguring routes, estimating monthly usage in limited situations, and eliminating manual reports.

3. Discussion and possible direction to staff on alternatives for sunset reviews of boards and commissions.

Mr. Brent Stockwell noted that Ms. Jenny Pollock of the City Attorney's Office drafted the alternatives. A team has been working on implementing the directions Council provided on July 6. They are requesting input from the Audit Committee on sunset reviews to use in preparing their report for City Council's September 13 meeting.

The first option is to prepare a resolution for City Council to authorize the Audit Committee to oversee the sunset review process. This would be added to the Committee's regular duties and over a three-year cycle the Committee Members would review each board and commission and make appropriate recommendations to Council.

Two other options would involve ordinance changes. Mr. Stockwell explained that these options would entail changing the general ordinance section on boards and commissions to require a sunset review every three years. The enabling ordinance for each individual body would have to be amended to include the date for the review. He added that the State legislature follows this model. The Joint Legislative Audit Committee works with the Executive Office, the Legislative staff, and the Auditor General's Office to determine the schedule.

City Auditor Sharron Walker clarified that every State agency has a sunset review once every ten years. Legislative committee staff is assigned to review the minor entities, and the Auditor General's Office conducts an audit of the large or significant agencies, boards and commissions.

Option two would have the review date in the enabling ordinances to trigger staff to bring that item up for Council review on or before its date. The board or commission would remain in effect until the review was conducted and unless the Council decided to terminate it. Option three would provide that the board or commission would terminate unless Council took action to continue it. This option would entail greater staff involvement as Council would rely on staff to bring forward those scheduled for action. Mr. Stockwell said staff would appreciate input on what kind of information Council would want from staff. The annual report from each body will provide a reference.

In response to a query by Chair Klapp, Mr. Stockwell elaborated on the other options in the report. Option four is the same as option one but the Audit Committee's role would be enshrined in ordinance. Option five would allow the Council to identify some other entity to perform the duties. Options six and seven recognize that since the Council vote was split four to three, there could be compromise proposals. Specifically, option six would be to establish time frames for evaluating the boards and commissions but not to establish dates for automatic termination. Finally, option seven would be to conduct periodic reviews on an as-needed basis at the direction of Council without prescribing a formal process. He pointed out that over the last few years, this is what the process has been. The boards and commissions have been asked to review their purpose, powers, and duties, and to recommend if they need any changes.

Chair Klapp asked if this were done by resolution how the process would start, given that Council just discussed every board and commission. Mr. Stockwell replied that staff could take into consideration when each body was established and how recently they have been reviewed. He stressed that staff can provide support to the Audit Committee or to Council depending on the process chosen.

Chair Klapp said she could see where the Audit Committee could take on the responsibility of overseeing the process for City Council, but she was not positive on how the process would start. Mr. Stockwell said the first round could begin in one year's time, given that the Mayor's staff recently reviewed the boards and commissions. One-third of the bodies could be reviewed each year. Councilwoman Milhaven noted that this would give the Committee time to figure out details of the process. Ms. Walker said in the meantime she could bring them more information about how the State process works.

In reply to a comment by Chair Klapp, Mr. Stockwell said that although the recommendation was in terms of a formal process, staff had come to realize there are more informal ways to accomplish this. He pointed out that the boards and commissions annual reports for 2011 will be available next February or March. The Committee could then decide which bodies to review. Chair Klapp said it would be helpful for the City Auditor's staff to review the annual reports before presenting them to the Committee. Mr. Stockwell stressed that staff is open to providing the information Councilmembers want.

Vice Mayor Littlefield remarked that at the time of the vote, no one mentioned giving the Audit Committee any responsibility. Mr. Stockwell said this was as a result of the team's discussions with the City Auditor. Vice Mayor Littlefield said that as the involvement of the Audit Committee is option one that implies that option is the preferred choice. He asked why staff thinks it would be appropriate for the Audit Committee to make these determinations, as opposed to some other body. Mr. Stockwell said that this would most closely mirror the State process. Vice Mayor Littlefield pointed out that the responsibilities of the Audit Committee are outlined in the Charter. When they were functioning as a search committee for Charter officers, he objected to that as a non Charter expansion of the responsibilities of the Audit Committee. He is not totally comfortable with the idea that the Committee should take on this extra responsibility.

Mr. Stockwell recalled that he was Acting City Auditor when it was recommended that the Audit Committee's scope be expanded to select a new City Auditor. That process seemed to work at the time and then was expanded. There is a provision in the Code section that allows City Council to delegate additional duties and responsibilities to the Audit Committee. Ms. Walker added that this is a proposal for the Committee's feedback. She personally does not have a preference, however this seems to be a good fit with the other work the Committee is doing.

Chair Klapp said that the Audit Committee seems to be the most appropriate Council committee to undertake this review. The alternative would be to form another Council subcommittee. In her opinion the City Auditor's staff is most suited for reviewing the information and providing feedback. However if Council wants to assign this task elsewhere that would be acceptable to her.

Councilwoman Milhaven concurred that this would be fine, as long as it is in line with the responsibilities defined in the Charter. Mr. Stockwell said the Charter of the Audit Committee is in the City Code. In the City Charter, the language refers to the City Auditor. He noted that boards and commissions are included within the scope of audits.

Chair Klapp said that the reviews can be included in the Audit Committee work plan. She is not opposed to the Audit Committee taking on this responsibility. She suggested including in the Council Report that two members of the Committee are agreeable to this and asking Council for direction. Mr. Stockwell said that staff can prepare a tentative schedule for Council to show how the process might work. He clarified that under the option one, the Audit Committee would make recommendations; the final decision would be up to Council. Chair Klapp said this topic is too big for full discussion by the whole Council. If the Audit Committee does not take on this responsibility another subcommittee would have to be appointed.

Mr. Stockwell stressed to Vice Mayor Littlefield that staff does not have a recommendation. The concept of a sunset review came out of the fall 2009 audit report.

4. Discussion and possible direction to staff regarding Taxpayer Problem Resolution Officer Quarterly Report

Ms. Joanna Munar presented the taxpayer problem resolution officer quarterly report for the second quarter of 2011.

She noted a significant drop in positive responses to the service surveys at 89 percent, in comparison with the same period of 2010, where 93 percent of the responses were positive. However, the billing surveys received a notable increase in positive responses up from 95 percent to 98 percent. The tax audit survey received a response of 4.12 out of a possible score of 5.

5. Discussion and possible direction to staff regarding status of FY 2011/12 Audit Plan

Ms. Walker reviewed the current status of the audit plan, summarizing that everything is on schedule so far. She noted that at the July 6 Council meeting, the Mayor requested a review of the City's current regulatory permitting system. The current audit plan has an audit of Development/Plan Review Processes. She had been also planning to review development/plan review fees, but this part of the potential audit was put on hold due to pending legislation. Since the Mayor's request fits with the original scope of those audits, she proposes that they incorporate the Mayor's request. In September, Ms. Walker will report on the possible impact to the audit schedule of adding the permit fee review. The audit will continue to avoid looking at the development fees affected by the new legislation since the City is still working through those implications.

Chair Klapp inquired about the possible impact to the audit plan. Ms. Walker could not say yet, noting there could be a ripple effect and possibly an audit would be pushed into the next fiscal year. However the Mayor's request to review permit processes and fees fits in well with the scope of the audit they were planning to do. They are in the preliminary information gathering stages and have not yet designed the audit.

6. Discussion of Agenda Items for Next Audit Committee Meeting on September 19, 2011

Ms. Walker noted that they are making good progress on the planned audits. She invited the Committee Members to let her know if they would like any other items added to the draft agenda.

Public Comment

No members of the public wished to address the Committee.

Adjournment

The meeting adjourned at approximately 4:40 p.m.

Respectfully submitted,
A/V Tronics, Inc. DBA AVTranz.